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# **Somerville Industries Limited**

**1965 ANNUAL REPORT**





## **Management Committees**

### *Head Office:*

F. C. Lennox	Chairman
J. G. Church	Vice-President, Packaging
A. G. Shillington	Executive Vice-President
A. B. Van der Ende	Secretary-Treasurer
T. E. White	Manager, Industrial and Public Relations

### *Packaging:*

J. G. Church	Chairman
E. J. Dewhurst	Vice-President and General Manager Canadian Folding Cartons Limited
K. W. Keene	General Manager, London Division and Winnipeg
I. A. MacDonald	General Manager, Consolith Division
G. C. Snell	President, Canadian Folding Cartons Limited

### *Special Products:*

A. G. Shillington	Chairman
J. W. Feightner	General Manager, Plastics Division and Impac Containers Western
H. W. Ferguson	Manager, Display Division
F. J. Orr	General Manager, Panel Division and Somerville Automotive Trim Limited
J. G. Watson	Manager, Strathmore Division
B. L. Morin	Manager, Games Division

# Somerville Industries Limited

## Directors

J. G. Church	F. J. Orr
F. C. Lennox	A. G. Shillington
G. C. Metcalf	G. C. Snell
W. Garfield Weston	

## Officers

G. C. Metcalf	Chairman of the Board
F. C. Lennox	President and General Manager
A. G. Shillington	Executive Vice-President
J. G. Church	Vice-President, Packaging
A. B. Van der Ende	Secretary-Treasurer

## Transfer Agent

The Canada Trust Company  
Toronto, London, Montreal, Winnipeg and Vancouver





### **Summary**

During 1965, your Company operated at record levels—for the eighth consecutive year.

Net Sales increased by 10.2%—to \$34,471,425.

Net Earnings, after all charges, increased by 10.4%—to \$1,819,994.

### **Operations**

#### **PACKAGING AND RELATED PRODUCTS**

High quality products, coupled with our emphasis on creative service, once again resulted in an increase in "Somerville" packaging sales. Despite sustained heavy competition, we maintained our position of leadership in the industry. Continuing our modernization program started a few years ago, we spent almost \$1,000,000 during the year on the improvement and replacement of our packaging equipment.

The conversion of our equipment to produce polyethylene coated milk cartons was completed at our Winnipeg plant by the end of 1965. Early in 1966, the equipment at our London and Montreal plants will be changed over, and we expect to be in full plastic-coated milk carton production for the entire Canadian market by June 1, 1966.

### **Special Products**

#### **AUTOMOTIVE PANEL DIVISION**

Net sales of all automotive and related products increased by almost 50% over 1964. This was partly the result of recent Canada/U.S.A. tariff agreements on automotive parts.

In order to improve our service to customers in the Windsor/Detroit area, a subsidiary company—"Somerville Automotive Trim Limited"—was established in Windsor, Ontario, during the summer of 1965.

Lack of adequate space continued to hamper our operations at Scarborough during the year, and forced us to rent additional manufacturing and storage areas outside our own factories. To combat this condition, a new facility of some 90,000 sq. ft. was established in Windsor, Ontario, which commenced operations in April, 1966.

#### **DISPLAY DIVISION**

Sales and profits at this Division were at high levels during 1965. This trend is expected to continue through 1966, aided by sustained efforts to increase our share of the highly competitive point-of-purchase display market.

#### **SOMERVILLE PLASTICS LIMITED**

The combined sales volume of Somerville Plastics Limited and Impac Containers Western Limited was slightly below 1964 levels. Profits deteriorated during the year, mainly as a result of severe price competition and the inherent obsolescence factors dominating the production of plastic novelties and toys. Aggressive plans are being formulated to capture a much larger share of the high volume plastic food container market. A marked improvement in both sales and profits is anticipated for 1966.

#### **GAMES DIVISION AND N. V. MORRISON LIMITED**

Combined sales and profits of games, crackers, and paper novelties were at approximately the same levels as last year. Plans are under way to further expand these lines towards greater sales and profitability.



### **Properties and Equipment**

Capital expenditures during 1965 amounted to \$1,611,735. The Pure-Pak milk carton conversion program accounted for \$450,000 of this. The remainder was spent on further modernization and diversification of production equipment. 1966 expenditures, including a planned \$500,000 addition to our Montreal plant, are estimated in excess of \$2,000,000.

### **Working Capital**

On December 31, 1965 a Common share dividend of \$2,000,000 was declared. This reduced working capital to \$6,371,731. Current Assets were \$12,416,928 against Current Liabilities of \$6,045,197—a ratio of 2.1 to 1.

### **Earnings**

1965 profits, before taxes, were \$2,711,994—a modest increase over 1964. Special income tax legislation enabled us to claim further accelerated capital cost allowances, reducing our income tax liability for the year to \$892,000.

Net earnings, after all charges, were \$1,819,994—an increase of \$171,289, or 10.4% over 1964 results.

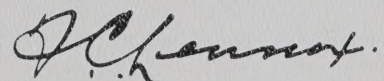
### **General**

Prospects for 1966 are encouraging. The folding carton business should continue a normal growth along with the general economic climate. We intend to continue to put emphasis on creativity, quality work, and "specialty" items. To meet the requirements for increased capacity, the \$500,000—78,000 sq. ft. addition to the Consolith plant in Montreal is well under way. As previously mentioned, the sale of component parts to automotive companies has been greatly accelerated by the completion of the Canada/U.S.A. tariff agreement. The establishment of the Somerville Automotive Trim plant in Windsor, coupled with the new 90,000 sq. ft. facility in that city, should enable us to keep pace with the opportunities presented by this new agreement.

For the purpose of simplification of accounting procedures and to obtain certain tax advantages, some changes in our corporate structure were made during the year. The company charters for three of our wholly-owned subsidiaries—Somerville Plastics Limited, Impac Containers Western Limited, and N. V. Morrison Limited—were surrendered. The Morrison name was changed to "Strathmore" Division—which is the trade name of their product line.

To cope with expanding volume and diversification, with an eye to greater efficiency, certain major organizational changes were made in August, 1965. Some seven senior positions and responsibilities were modified or changed. Mr. A. G. Shillington, Executive Vice-President, in addition to his other functions, assumed responsibility for all Special Products Divisions and subsidiaries. Mr. J. G. Church was appointed Vice-President in charge of all Packaging operations. Mr. F. B. Campbell was appointed Vice-President of Finance and Corporate Planning. It was with regret that Mr. Campbell's resignation was accepted at the year-end. Subsequently, Mr. A. B. Van der Ende has been appointed Secretary-Treasurer.

The success of any business is attributable mainly to people, and we would like to take this opportunity to thank our employees, customers, and suppliers for their loyalty and support throughout the year, and in soliciting their continued help, we look forward with optimism to the year 1966.



President and General Manager





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**Consolidated Statement of Earnings**

1956

NET SALES	\$16,965,724
Costs, excluding expenses shown below	15,113,124
OPERATING PROFITS	\$ 1,852,600
Moving & starting-up expenses of new plants	\$ 28,882
Bond Interest	146,929
Depreciation	449,618
	\$ 625,429
Profits before Income Taxes	\$ 1,227,171
Provision for Income Taxes	543,200
NET EARNINGS	\$ 683,971

**Consolidated Statement of Retained Earnings**

Retained Earnings at beginning of Year	\$ 2,087,269
Net Earnings for Year	683,971
	\$ 2,771,240
Sundry Charges	\$ 1,497
Dividends on Common Shares	—
Dividends on Preferred Shares	111,300
	\$ 112,797
RETAINED EARNINGS AT END OF YEAR	\$ 2,658,443

(1) Financing expens



# Year Comparison

1957	1958	1959	1960	1961	1962	1963	1964	1965
354,640	\$19,513,044	\$21,540,484	\$23,322,163	\$25,193,720	\$28,308,774	\$29,005,827	\$31,279,679	\$34,471,425
606,154	17,311,541	18,924,853	20,463,713	22,100,869	24,821,341	25,290,239	27,563,640	30,725,841
748,486	\$ 2,201,503	\$ 2,615,631	\$ 2,858,450	\$ 3,092,851	\$ 3,487,433	\$ 3,715,588	\$ 3,716,039	\$ 3,745,584
124,490	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 125,000		
214,986	280,266	271,534	268,478	258,851	246,118	233,058	\$ 219,632	\$ 205,827
495,483	527,025	617,954	647,637	665,905	678,297	754,631	795,702	827,763
834,959	\$ 807,291	\$ 889,488	\$ 916,115	\$ 924,756	\$ 924,415	\$ 1,112,689	\$ 1,015,334	\$ 1,033,590
913,527	\$ 1,394,212	\$ 1,726,143	\$ 1,942,335	\$ 2,168,095	\$ 2,563,018	\$ 2,602,899	\$ 2,700,705	\$ 2,711,994
335,700	587,900	712,125	842,000	1,027,000	1,246,000	1,113,000	1,052,000	892,000
577,827	\$ 806,312	\$ 1,014,018	\$ 1,100,335	\$ 1,141,095	\$ 1,317,018	\$ 1,489,899	\$ 1,648,705	\$ 1,819,994
658,443	\$ 3,013,748	\$ 3,353,530	\$ 4,259,669	\$ 5,254,466	\$ 6,116,800	\$ 7,327,446	\$ 8,710,973	\$10,253,306
577,827	806,312	1,014,018	1,100,335	1,141,095	1,317,018	1,489,899	1,648,705	1,819,994
236,270	\$ 3,820,060	\$ 4,367,548	\$ 5,360,004	\$ 6,395,561	\$ 7,433,818	\$ 8,817,345	\$10,359,678	\$12,073,300
114,680 <sup>1</sup>	\$ 360,158 <sup>2</sup>	\$ 1,507	\$ (834)	\$ 172,389 <sup>3</sup>	\$ —	\$ —		
—	—	—	—	—	—	—	\$ —	\$ 2,000,000
107,842	106,372	106,372	106,372	106,372	106,372	106,372	106,372	106,372
222,522	\$ 466,530	\$ 107,879	\$ 105,538	\$ 278,761	\$ 106,372	\$ 106,372	\$ 106,372	\$ 2,106,372
013,748	\$ 3,353,530	\$ 4,259,669	\$ 5,254,466	\$ 6,116,800	\$ 7,327,446	\$ 8,710,973	\$10,253,306	\$ 9,966,928

(1) 5,497. (2) Loss on sale of real estate \$358,043. (3) Excess of cost over book value of acquired subsidiary companies \$172,389.





**Consolidated Statement of Earnings**  
for the year ended December 31, 1965

	1964	1965
NET SALES	\$31,279,679	\$34,471,425
Costs, excluding expenses shown below	27,563,640	30,725,841
OPERATING PROFITS	\$ 3,716,039	\$ 3,745,584
Deduct:		
Bond Interest	\$ 219,632	\$ 205,827
Depreciation	795,702	827,763
	\$ 1,015,334	\$ 1,033,590
Profits before Income Taxes	\$ 2,700,705	\$ 2,711,994
Provision for Income Taxes	1,052,000	892,000
NET EARNINGS FOR YEAR	\$ 1,648,705	\$ 1,819,994

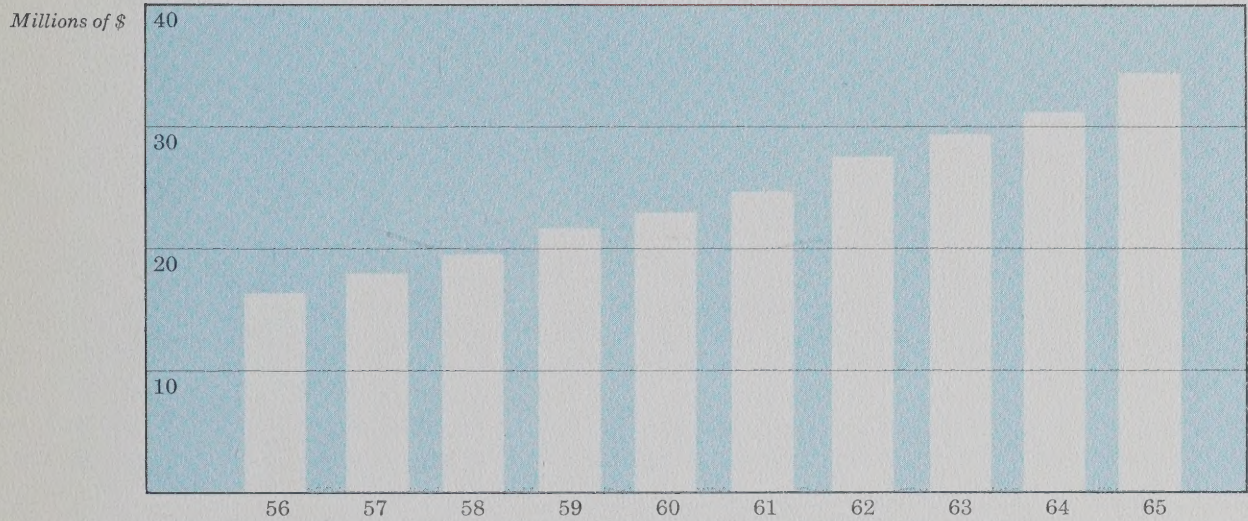
(Remuneration of Officers and Directors in 1965 : \$200,000.)

**Consolidated Statement of Retained Earnings**  
for the year ended December 31, 1965

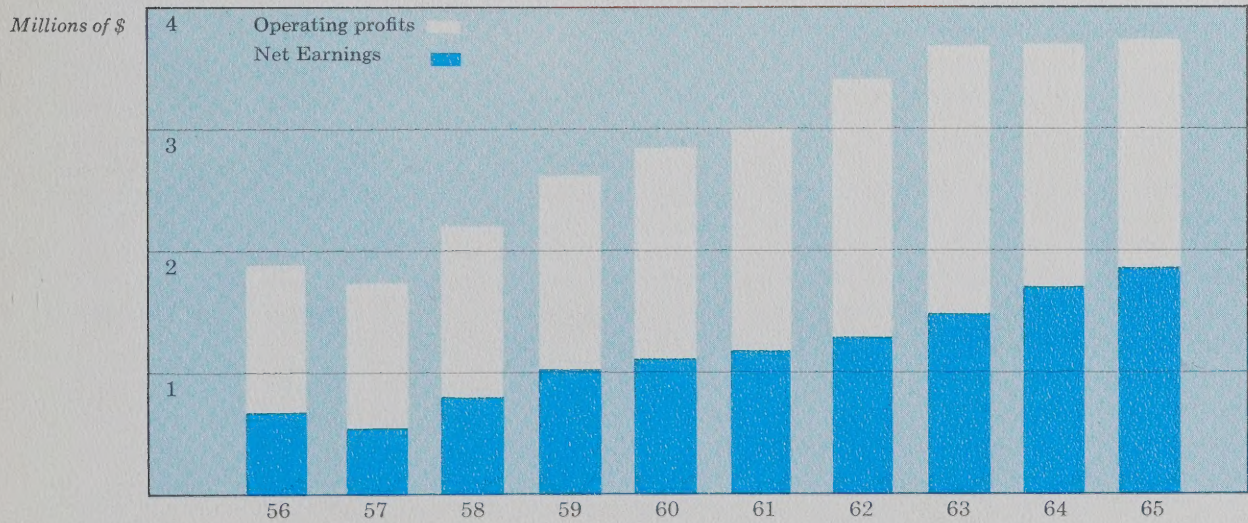
Retained Earnings at Beginning of Year	\$ 8,710,973	\$10,253,306
Net Earnings for Year	1,648,705	1,819,994
	\$10,359,678	\$12,073,300
Deduct:		
Dividends on Common Shares	\$ —	\$ 2,000,000
Dividends on Preferred Shares	106,372	106,372
	\$ 106,372	\$ 2,106,372
RETAINED EARNINGS AT END OF YEAR	\$10,253,306	\$ 9,966,928



### Ten Year Sales Comparison



### Ten Year Earnings Comparison







# Somerville Industries Limited

AND ITS WHOLLY OWNED SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1965

CURRENT ASSETS	1965	1964
Cash.....	\$ 580,392	\$ 579,942
Accounts receivable (less allowance 1965, \$83,554; 1964, \$82,048).....	4,527,560	3,508,615
Inventories (valued at lower of cost or market).....	7,264,338	6,622,199
Prepaid expenses.....	44,638	127,736
	<u>\$12,416,928</u>	<u>\$10,838,492</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses.....	\$ 3,234,071	\$ 2,366,495
Income taxes payable (Note 3).....	339,374	304,386
Other taxes payable.....	181,937	211,938
Bond sinking fund payments due in 1966.....	263,222	255,084
Dividends payable.....	2,026,593	26,593
	<u>\$ 6,045,197</u>	<u>\$ 3,164,496</u>
WORKING CAPITAL.....	<u>\$ 6,371,731</u>	<u>\$ 7,673,996</u>
SINKING FUND RE PREFERRED SHARES—government and industrial bonds at market values (cost \$106,251).....	\$ 100,340	\$ 107,268
MORTGAGE RECEIVABLE.....	\$ 37,500	\$ 40,000
FIXED ASSETS: Land, buildings, machinery and equipment (Note 1).....	\$17,964,563	\$16,540,429
Less: Accumulated depreciation.....	6,733,203	6,045,073
	<u>\$11,231,360</u>	<u>\$10,495,356</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES.....	<u>\$17,740,931</u>	<u>\$18,316,620</u>
LONG TERM DEBT (Note 2).....	3,210,150	3,473,372
NET ASSETS (being shareholders' equity).....	<u>\$14,530,781</u>	<u>\$14,843,248</u>
SHAREHOLDERS' EQUITY		
Preferred shares, \$50 par value (authorized 97,990 shares)—1953 series, cumulative, \$2.80 sinking fund, redeemable—issued, 37,990 shares.....	\$ 1,899,500	\$ 1,899,500
Common shares, without par value (authorized 500,000 shares)—issued, 356,300 shares.....	356,300	356,300
Retained earnings.....	9,966,928	10,253,306
Excess of appraised value of fixed assets over cost, less sundry charges.....	2,308,053	2,334,142
TOTAL SHAREHOLDERS' EQUITY.....	<u>\$14,530,781</u>	<u>\$14,843,248</u>

Signed on behalf of the Board:

F. C. LENNOX, Director.

A. G. SHILLINGTON, Director.



## NOTES TO CONSOLIDATED STATEMENTS

1. The value of buildings, machinery and equipment is shown at cost or based on appraisals made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

2. Long term debt:	1965	1964
First mortgage bonds: Authorized \$10,000,000.		
Series A, 5¼ % sinking fund due October 15, 1973, Outstanding.....	\$1,574,000	\$1,729,000
Less: 1966 sinking fund provision and cash in hands of trustee.....	163,850	155,628
	<u>\$1,410,150</u>	<u>\$1,573,372</u>
Series B, 6% sinking fund due June 15, 1977.....	\$1,900,000	\$2,000,000
Less: 1966 sinking fund provision.....	100,000	100,000
	<u>\$1,800,000</u>	<u>\$1,900,000</u>
Total long term debt.....	<u>\$3,210,150</u>	<u>\$3,473,372</u>

3. The taxes on income for the current year are after a reduction of \$500,000 because of the Company's intention to claim for tax purposes depreciation to the extent of \$962,000 in excess of the amount provided for the year in the accounts. The net accumulated amount to date by which taxes otherwise payable have been so reduced is \$1,976,000.

4. Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases aggregate rentals amount to approximately \$2,962,200. Maximum annual rentals payable thereunder for the years 1966 to 1971 are approximately \$149,500.

5. Included in accounts receivable is an amount of \$488,560 owing from, and in accounts payable an amount of \$89,889 owing to, affiliated and associated companies.

## AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

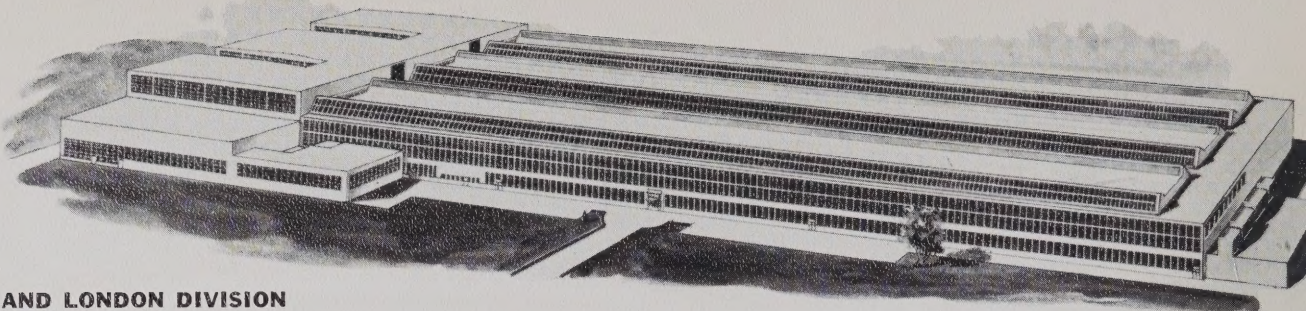
We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1965 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated statements of financial position, earnings and retained earnings present fairly the combined financial position of the companies as at December 31, 1965 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada  
January 21, 1966

THORNE, MULHOLLAND, HOWSON & McPHERSON  
Chartered Accountants.





**HEAD OFFICE AND LONDON DIVISION**  
**P.O. Box 2760, Terminal "A", London, Ont.**  
 Folding cartons, set-up boxes, bags, games, puzzles.



**CANADIAN FOLDING CARTONS LIMITED**  
**188 Cartwright Avenue, Toronto 19, Ont.**  
 Folding cartons.



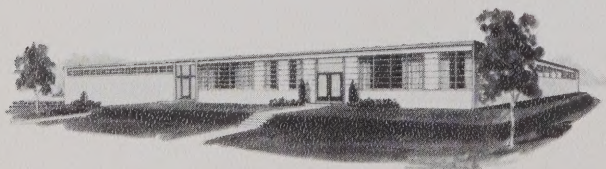
**CONSOLITH DIVISION**  
**865 Hodge Street, Montreal 9, Que.**  
 Folding cartons, labels, lithography.



**WINNIPEG PLANT**  
**1885 Sargent Avenue, Winnipeg 3, Man.**  
 Pure-Pak containers.



**DISPLAY DIVISION**  
**11 Lesmill Road, Don Mills, Ont.**  
 Point of purchase displays in plastic, paperboard, wire, metal and wood.



**STRATHMORE DIVISION**  
**(formerly N. V. Morrison Limited) Strathroy, Ont.**  
 Party crackers and paper novelties.





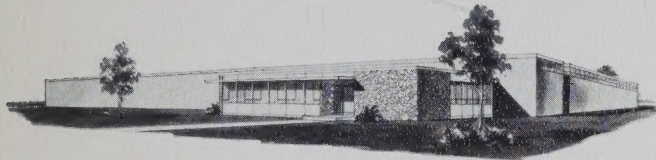
## Somerville Directory



### **PANEL DIVISION**

**20 Bertrand Avenue, Scarborough, Ont.**

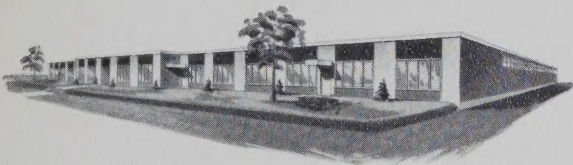
Automotive interior trim, fabricated hardboard and plywood, compression molded plastics.



### **SOMERVILLE PLASTICS**

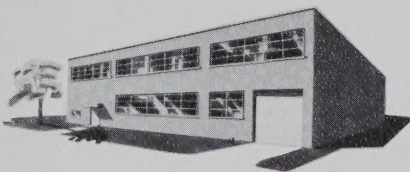
**376 Orenda Road, Bramalea, Ont.**

Plastic coffee cups, toys and novelties, custom injection molding, blow molding and vacuum forming.



### **SOMERVILLE AUTOMOTIVE TRIM LIMITED**

**3950 Malden Road, Windsor, Ont.**



### **IMPAC CONTAINERS WESTERN**

**242 East Esplanade Ave., North Vancouver, B.C.**

Plastic coffee cups.

### **Sales Offices situated at all manufacturing divisions and at the following locations:**

HAMILTON: 477 Main Street East

GUELPH: 9 Oak Street (P.O. Box 331)

MONCTON: 510 Montgomery Avenue

PETERBOROUGH: 166 Brock Street (P.O. Box 325)

### **Representatives:**

NEWFOUNDLAND: N. C. Hutton, Ltd., St. John's

QUEBEC: Henri Gauvin, Quebec City

Marcel Messely, Quebec City

ONTARIO: Mid-West Paper Limited, Port Arthur

Snelling Paper Sales Limited, Ottawa

PRAIRIE PROVINCES: Crown Zellerbach Canada Ltd., Winnipeg

Mid-West Paper Limited, Winnipeg

Paper Agencies Limited, Winnipeg

COAST-TO-COAST:

Games Sales—Frank E. Lucas and Company, Toronto

Plastic Toy Sales—Mort Mager, Toronto

Party Cracker Sales—Harry Adelman Agencies, Toronto



# Change



Printed in Canada